OVERVIEW

As a financial services provider, we are subject to substantial liquidity risk, credit risk, and interest rate risk in our business operations, whilst we are exposed to relatively limited operational risk and exchange rate risk. Our risk management principle is to implement an integrated and dynamic risk management system and continue to optimize our risk management system to protect the long-term interests of our shareholders, customers and employees.

We have established a prudent risk management system, as a result of which our non-performing asset ratio as of December 31, 2007, 2008 and 2009 and September 30, 2010 was 1.70%, 1.90%, 1.20% and 0.73%, respectively.

We have adopted the following strategies to achieve our risk management objectives:

- continue to optimize our business model, integrating it with our enhanced corporate governance structure to strategically reduce systematic risks, including strategic selection of industries and sub-sectors within each industry;
- continue to remain selective in the screening of customers, based on our thorough industry understanding;
- continue to strengthen our risk management capabilities by taking advantage of a two-layer risk management structure with company-level and industry business division level;
- continue to optimize our customer evaluation model based on our extensive customer base and our in depth understanding of our customers' common characteristics;
- continue to utilize our broad customer base and industry contacts to effectively dispose of repossessed assets in the event of default, thereby mitigating potential losses; and
- continue to cultivate a strong risk management culture through rigorous implementation of our risk management policies and measures, as well as company-wide advanced employee training.

We have implemented our prudent risk management system across three dimensions:

Business model dimension. Our business is organized and operated with an industry focus approach. Such a business model helps manage systematic risk through established procedures, primarily comprising (i) a stringent selection process of suitable fundamental and sustainable industries, (ii) segmentation of suitable targeted customers, (iii) customer credit assessment and approval procedures, and (iv) portfolio monitoring and management. We believe these established procedures enable us to maintain relatively low overall risk.

Strategic dimension. Our risk management initiatives at the strategic level are led by our CEO and senior management under the supervision of our Risk Management Committee, with the management focus on risks arising from our strategic planning, business operations, corporate credit environment, finance and accounting, and the financial markets. We have established a vertical reporting procedure involving relevant functional departments in our strategic risk management system, and a monthly risk reporting framework has been established to monitor the overall risk balance at the corporate level and to regularly oversee our risk management system at strategic level.

Operational dimension. Our risk management initiatives at the operational level primarily focus on the management of our credit risk (which includes risks arising from new industry selection, new customer selection, customer credit assessment and approval, as well as portfolio monitoring and management), operational risk, liquidity risk and interest rate risk. We have established "three lines of defense" at the operational level, including:

(i) in terms of credit risk and operational risk management, we have been (a) controlling project risks by ensuring strict adherence to internal credit facility standards and preliminary screening guidelines, (b) assessing credit risks of new customers and projects through standardized credit evaluation procedures before entering into any business contract, (c) strengthening our internal authorization and approval policies and procedures, and (d) instituting effective supervision and monitoring measures during post transaction portfolio management;

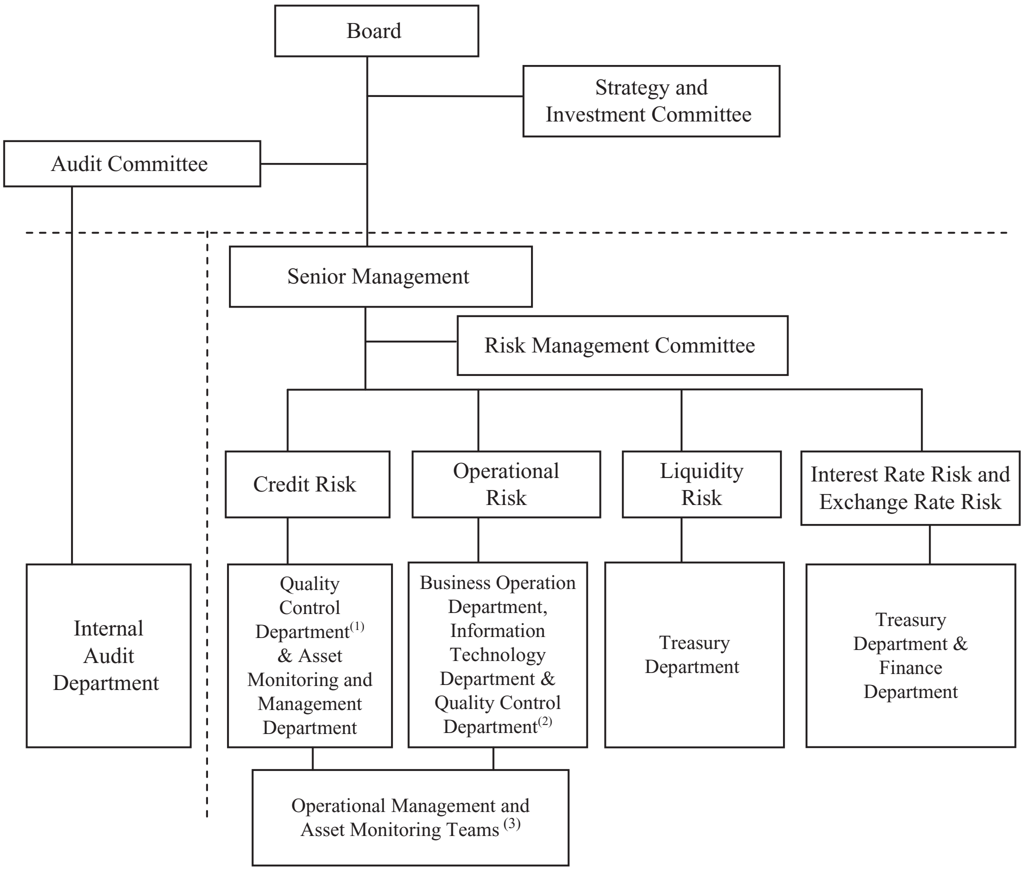
(ii) in terms of liquidity risk management, we have been prudently managing our balance sheet to match the durations of our assets and liabilities; and

(iii) in terms of interest rate risk management, we have been hedging our interest rate risk by matching our lease pricing mechanisms with interest on our borrowings.

In addition, we have established an independent Internal Audit Department which oversees our risk management system. It reports directly to the Audit Committee on a regular basis and performs independent audits of the reasonableness, completeness and effectiveness of our operational management and risk controls.

RISK MANAGEMENT STRUCTURE

We began to develop our risk management procedures when we started our financial leasing services. Our senior management and Quality Control Department are primarily responsible for managing the various risks to which we are exposed. With the expansion of our business and increased risk, we have established a comprehensive risk management system. The following chart sets forth our risk management structure:



Notes:

(1) The Operational Management Center of the Quality Control Department, together with the Asset Monitoring and Management Department, is responsible for credit risk management. In addition, there is another center under the Quality Control Department, namely the Legal Center.

(2) Together with the Business Operation Department, the Information Technology Department and Legal Center of the Quality Control Department are mainly responsible for operational risk management.

(3) Each of our six industry business divisions has its respective operational management team and asset monitoring and management team. Through a dual-reporting system, these teams are required to report to both their respective industry business divisions and functional departments such as the Quality Control Department.

Board

The Board of Directors takes the ultimate responsibility for our overall risk management. It oversees risk management functions through the Strategy and Investment Committee and the Audit Committee of the Board of Directors.

Strategy and Investment Committee

The Strategy and Investment Committee of the Board of Directors is primarily responsible for providing strategic guidance concerning our risk management generally, designing the overall framework and providing structural advice regarding the development, implementation and optimization of our risk management system. The Chairman of this committee, Mr. Liu Haifeng David, has approximately 18 years' experience in the investment banking business. For details, see the section headed "Directors and Senior Management".

Audit Committee

The Audit Committee of the Board of Directors is primarily responsible for monitoring our internal controls and the independent Internal Audit function, reviewing and overseeing the implementation of our internal control rules and measures, evaluating our internal audit capabilities, mandating external auditors, as well as examining and verifying our financial information and related disclosure. The Audit Committee will also report to and make recommendations to the Board of Directors. The Chairman of this committee, Mr. Yip Wai Ming, has over 20 years of experience in accounting and finance. For details, see the section headed "Directors and Senior Management".

Senior Management

Our senior management, comprising our CEO (Mr. Kong Fanxing), CFO (Mr. Wang Mingzhe) and CCO (Mr. Liu Honglai), primarily manages risks associated with our business operations. Our CEO chairs our Risk Management Committee. Our CFO is in charge of liquidity risk and interest rate risk management, while our CCO is in charge of credit risk and operational risk management. Our CFO and CCO report to our CEO and our CEO makes recommendations and reports on our overall risk management operations to the Board of Directors. Our senior management is also responsible for the implementation of risk management strategies, plans, policies and systems as determined by our Board of Directors.

Risk Management Committee

We established a Risk Management Committee in May 2006 to oversee risk management processes within our Group. The main duties and responsibilities of the Risk Management Committee are to design risk management systems and policies, to review, approve and supervise overall risk management measures and procedures and their general implementation. The Chairman of this committee, Mr. Kong Fanxing, has significant experience in corporate management and risk management. For details, see the section headed "Directors and Senior Management".

Quality Control Department

Our Quality Control Department, along with the designated quality control team in each industry business division, is responsible for implementing and monitoring the risk management system of our Group. There are two centers under our Quality Control Department, namely the Operational Management Center and the Legal Center. The Operational Management Center is responsible for formulating and implementing risk management rules and guidelines and supervising compliance with these rules through active involvement throughout our business. The Legal Center is in charge of our overall legal risk management, in particular business contract review, negotiation and finalization. All major lease contracts are required to undergo credit assessment by our centralized credit assessment team (i.e. the Operational Management Centre of Quality Control Department), while the credit assessment for relatively small lease contracts in the healthcare and printing industries can be approved by the credit assessment team in the relevant industry business division. We have clear levels of approval authority for various levels of the organization. Quality control professionals are the core members within the credit assessment team at company and divisional levels. The head of this department, Mr. Liu Honglai, has significant experience in risk management. For details, see the section headed "Directors and Senior Management".

Information Technology Department

Our Information Technology Department (formerly known as Information Technology Center under the Quality Control Department) is in charge of formulation, inspection and maintenance of our information technology system and provides technical support for our risk management. The head of this department, Mr. Liu Haolai, has significant experience in risk management. For details, see the section headed "Directors and Senior Management".

Strategic Management Department

The Strategic Management Department is responsible for conducting research regarding overall strategies, development plans and operational enhancement of our Company. The head of this department, Mr. Shang Bing, has significant experience in corporate management. For details, see the section headed "Directors and Senior Management".

Asset Monitoring and Management Department

Our Asset Monitoring and Management Department, along with the designated asset monitoring team in each industry business division, is mainly responsible for the continuous management of our asset portfolio and the assets underlying our leases during the lease term. Our Asset Monitoring and Management Department works closely with our industry business divisions to (i) regularly monitor the asset portfolios, by periodically reviewing the status of lease receivables, any possible default on lease payments by our customers, and regular investigations and on-site inspections of customers, (ii) make timely adjustments to asset quality categorization based on regular assessment of asset quality, and (iii) carry out material event reporting, collateral collection, loss recovery and foreclosed asset disposal activities to preserve the collateral value of the assets underlying our leases. In addition, an internal information technology system has been adopted to record the status of lease payments and lease receivables, as well as the likelihood and occurrence of any events of default or other material events. The head of this department, Mr. Liu Honglai, has extensive experience in risk management. For details, see the section headed "Directors and Senior Management".

Business Operation Department

Our Business Operation Department is responsible for designing logistics solutions, and post-signing execution of logistics procedures, which include arranging for delivery of goods, customs clearance, transmission of payments and collection of payments, insurance coverage and obtaining relevant approvals and licenses. The risk management function of our Business Operation Department helps our Group achieve (i) timely delivery of equipment and goods to our customers, (ii) payment security and cost efficiency, and (iii) sufficient insurance coverage for leased equipment. The head of this department, Mr. Liu Honglai, has extensive experience in risk management. For details, see the section headed "Directors and Senior Management".

Internal Audit Department

Our Internal Audit Department oversees our risk management system and operates independently from each of the Quality Control, Asset Monitoring and Management and Business

Operations departments. It reports directly to the Audit Committee on a regular basis and performs independent audits of the reasonableness, completeness and effectiveness of our operational management and risk controls. There are three teams in our Internal Audit Department, namely our operational audit team, management audit team, and IT audit team. During the course of its audits, the Internal Audit Department is authorized to comprehensively inspect, analyze, evaluate and audit all of our business and operational procedures to identify any material issues or risk matters, and to provide advice for improvement and rectification. The Internal Audit Department is also our main communication channel with relevant external regulatory entities, such as courts and public safety bureaus. Our Internal Audit Department conducts follow-up audits to monitor the updated status of previously identified issues to ensure corrective and remedial measures have been duly implemented and are enforced. It also evaluates the non-compliance of our risk management policies and procedures by key personnel in the operational process, and may make recommendations to our senior management and the Board of Directors to impose certain penalties. The head of this department, Mr. Kong Fanxing, has extensive experience in operations management. For details, see the section headed "Directors and Senior Management".

Treasury Department

Our Treasury Department is responsible for managing our external funding sources and internal fund transfers. The risk management function of our Treasury Department includes: 1) monitoring and maintaining our capital base and cash flow at an appropriate level; 2) closely monitoring and analyzing our asset liability structure, liquidity condition and changes in funding cost; and 3) formulating and implementing risk management policies and procedures in respect of interest rate risk and exchange rate risk arising from our daily operation. The head of this department, Mr. Wang Mingzhe, has extensive experience in risk management and financial management. For details, see the section headed "Directors and Senior Management".

Finance Department

Our Finance Department is responsible for budget management and formulating and implementing policies and procedures in respect of accounting. It supervises utilization of funds by each industry business division and provides financial training to our employees. The head of this department, Mr. Wang Mingzhe, has extensive experience in risk management and financial management. For details, see the section headed "Directors and Senior Management".

The table below sets out the composition, chairman and set-up date of each committee/department as of the Latest Practicable Date.

	Composition/ Number of Staff	Chairman	Date of Establishment
Board	All Directors	Mr. Liu Deshu	May 2008
Strategy and Investment Committee	Mr. Liu Haifeng David (non-executive Director) Mr. Kong Fanxing (executive Director) Mr. Cai Cunqiang (independent non-executive Director)	Mr. Liu Haifeng David	December 8, 2010 with effect from the Listing Date
Audit Committee	Mr. Yip Wai Ming (independent non-executive Director) Mr. Han Xiaojing (independent non-executive Director) Ms. Sun Xiaoning (non-executive Director)	Mr. Yip Wai Ming	December 8, 2010 with effect from the Listing Date
Senior Management	CEO (Mr. Kong Fanxing) CFO (Mr. Wang Mingzhe) CCO (Mr. Liu Honglai)	Mr. Kong Fanxing	July 2001
Risk Management Committee	Senior management team Head of Finance Department Head of Treasury Department Head of Quality Control Department	Mr. Kong Fanxing	May 2006
Quality Control Department	35 employees	Mr. Liu Honglai	September 2001
Information Technology Department	19 employees	Mr. Liu Honglai	December 2010(1)
Strategic Management Department	11 employees	Mr. Shang Bing	December 2010(2)
Asset Monitoring and Management Department	16 employees	Mr. Liu Honglai	December 2009(3)
Business Operation Department	12 employees	Mr. Liu Honglai	July 2001
Internal Audit Department	16 employees	Mr. Kong Fanxing	July 2005
Treasury Department	20 employees	Mr. Wang Mingzhe	July 2001
Finance Department	52 employees	Mr. Wang Mingzhe	July 2001

Notes:

(1) The Information Technology Department was formerly known as the Information Technology Center under the Quality Control Department.

(2) The Strategic Management Department was formerly known as the Strategic Management Center under the Quality Control Department.

(3) The Asset Monitoring and Management Department was formerly known as the Asset Monitoring and Management Center under the Quality Control Department.

CREDIT RISK MANAGEMENT

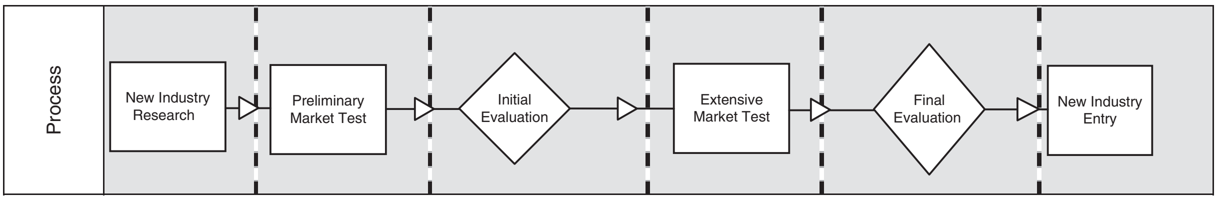
Credit risk is one of the major risks to which our Group is exposed. Credit risk arises from a customer's inability or unwillingness to meet its financial obligations to make timely payments to us. As our customers are spread across six key industries, we believe our overall credit risk exposure is well mitigated.

Our Quality Control Department and Asset Monitoring and Management Department, along with the operational management team and asset monitoring team within each of our industry business divisions, are mainly responsible for management of credit risk arising from our business, for which we have established a comprehensive risk management system.

Management of Risks Arising from New Industry Selection and Entry

The selection of and entry into new industries is a core part of our credit risk management process. Industry selection assists us in reducing overall risk exposure for the Company at the strategic level. Using this methodology, we have chosen six target industries on which to focus currently. At the same time, we have developed a six-step new industry selection procedure to conduct research, test the market, evaluate and make the decision whether to proceed with entering into a new industry. When targeting potential new industries to enter, we primarily take into account the following factors: (i) growth potential; (ii) extent of the customer base; (iii) presence of a large equipment vendor base and (iv) sustainability of the industry.

The following chart summarizes our new industry selection procedure:



The new industry selection process commences from new industry research based on domestic and overseas industry experience. Based on research results, we carry out a preliminary market test with a controlled volume and develop comprehensive business plans considering entry feasibility, growth potential, market capacity, capital needs, equipment, staff and other resources required for entry into the new industry. We normally conduct further market tests and more comprehensive evaluations if the initial results are positive, whereas we terminate any further market development immediately if the initial evaluation results in negative feedback. Once the entire new industry selection process is completed and all internal approvals are received, we will formally enter the new target industry and scale up our operations when and as appropriate. It normally takes 1.5 to two years from initial research to official establishment of a new industry business division.

Management of Risks Arising from the Customer Selection Process

With respect to each industry we serve, we have developed differentiated customer selection criteria based on the specific industry characteristics. These criteria normally include:

- total assets, revenues and stability of cash flows of target customers within the particular industry;

- competitive advantages, customer base, industry qualifications and ranking of target customers within the particular industry; and
- the operating and credit histories of target customers.

We make periodic adjustments to optimize our customer selection criteria, aiming to select top quality customers within each industry we serve.

Management of Risks Arising from Customer Credit Assessment and Approval

The following table sets forth our down payment and loan to value ratios as of the dates indicated:

	As of December 31,			As of September 30,
	2007	2008	2009	2010
Down payment ratio	10.42%	6.45%	8.02%	13.69%
Loan to value ratio	89.58%	93.55%	91.98%	86.31%

We have developed a set of systematic and comprehensive procedures to manage the credit risk of our leasing customers. All contracts above specified approval limits for each industry must be approved by our centralized credit underwriting team. All major lease contracts are required to undergo credit assessment by our centralized credit assessment team (i.e. the Operational Management Centre of Quality Control Department), while the credit assessment for relatively small lease contracts in the healthcare and printing industries can be approved by the credit assessment team in the respective industry business divisions. Credit control professionals are the core members of the credit assessment team at both company and divisional levels. For details of our leasing business project flow, see the section headed "Business—Our Business Operations—Leasing and Advisory Segment—Financial Leasing" in this prospectus. In recognition of our established risk management system, our domestic and international insurers have granted us insurance coverage of our lease receivables within the printing industry against any risk of lease default. We believe we are a pioneer in securing these insurance policies, and we are exploring opportunities to extend such insurance coverage to lease receivables within our other target industries.

Customer information diligence. We collect customer information through various channels as a basis for assessment of a customer's creditworthiness. Information collection mainly focuses on organizational documents, investment agreements, financial statements, documentary evidence of credit history and tax documents. Information is normally obtained directly from the leasing customer, from publicly available information or from third parties when necessary. The relevant industry business division also conducts on site checks at clients' premises to verify the accuracy of certain information. Independent reference checks are consistently conducted with industry associations, financial institutions, suppliers and other business partners to ensure information collected is duly verified. Collected customer information ranging from financial to operational information is recorded and regularly updated in our customer relationship management (CRM) system by the relevant industry business division. With the support of our IT system and leveraging on our expertise and knowledge of the industry, we are able to proactively monitor our customers' credit quality.

Credit assessment. Based on information collected during the customer information diligence stage, we conduct a credit assessment to determine the credit rating of the customer, perform a comprehensive evaluation of the project plan and review risks that may arise from the proposed transaction. We assess the customer's credit based on factors such as the customer's financial condition, cash flow, liquidity position, market position, geographic coverage, credit history, collateral coverage and the strength of any guarantor supporting the lease agreement. In addition, we control the credit volume for both individual and group customers. Based on the credit assessment result, we formulate an overall project plan, in particular for customized financial solutions, and include the same in a written credit assessment report. This forms the basis of a comprehensive analysis of the proposed transaction.

Credit approval. All major lease contracts are required to undergo credit assessment by our centralized credit assessment team (i.e. the Operational Management Centre of Quality Control Department), while the credit assessment for relatively small lease contracts in the healthcare and printing industries can be approved by the credit assessment team in the respective industry business divisions. We believe that the delegation of approval power in the healthcare and printing industries will not affect our risk management in these two industry divisions because (i) the internal control and risk management systems in these two divisions are well established compared to our other industry business divisions and (ii) the credit assessment measures implemented by these two divisions were formulated by our centralized credit assessment team, which applies to all the industries. We control our risk in these two industries by implementing stringent internal standards, efficient process management in the healthcare industry and implementing rigorous customer selection rules and maintaining credit insurance in the printing industry. For additional details, see the section headed "Business" in this prospectus; and (iii) our central credit assessment team will supervise and appraise the implementation of the risk management performance by these two divisions and determine whether to withdraw the approval power delegated in certain cases. We have established independent credit assessment teams in these two divisions, comprising quality control managers who specialize in risk management in these two industries and work under the close supervision of the centralized credit assessment team. Our non-performing asset ratio for the healthcare industry has declined from 1.52% as of December 31, 2007 (being the year of the delegation of approval power) to 0.31% as of September 30, 2010. Our non-performing asset ratio for the printing industry has declined from 3.57% in 2008 (being the year preceding the delegation of approval power) to 2.25% as of September 30, 2010. However, in principal, all of the lease contracts must be approved by our senior management after the credit assessment. The table below sets forth a brief introduction to our contract approval hierarchy:

	Division level	Vice president	CCO	CFO	CEO
Financing value up to RMB10 million and term of contract up to 5 years[(1)]	√	√	√		
Financing value over RMB10 million and up to RMB20 million and term of contract is 5 years or less[(1)]	√	√	√	√	
Financing value greater than RMB20 million or term of contract greater than 5 years	√	√	√	√	√

Note:

(1) Currently, the credit assessment teams at the healthcare and printing industry division level are authorized to approve contracts with financing value lower than RMB15 million and RMB5 million, respectively, and no additional approval from the centralized credit assessment team and senior management is required. Contracts with a financing value exceeding RMB15 million and RMB5 million in the healthcare and printing industry divisions will be approved based on the principals set out in the table above.

Our sales and marketing function is segregated from the quality control and asset management functions at both the company level and the industry business divisional levels in order to minimize potential conflicts of interest.

Management of Asset Portfolio

We apply risk management measures to monitor the quality of our asset portfolio, the assets underlying our leases and the efficiency of our credit assessment workflow. These measures are integrated into our continuing asset management efforts with the following key features:

- *Regular monitoring of asset portfolio*. We regularly monitor the quality of our asset portfolio and the assets underlying our leases by conducting the following procedures:
  - (a) *Daily monitoring of overdue lease receivables*. We have established a comprehensive system to timely identify overdue lease receivables on a daily basis, and our Asset Monitoring and Management Department will develop action plans in the event of delinquencies with support from our IT systems.
  - (b) *On-site customer visits*. We regularly deploy our asset management personnel to conduct visits of each customer's premises to monitor the financial condition of the customer, condition of leased equipment and to otherwise observe the condition of the collateral provided by the customer. Customer visit plans are prepared and implemented based on the customer's previous performance record.
  - (c) *Material event reporting procedures*. We have established a material event reporting procedure to closely monitor the occurrence of material adverse events of our customers.
- *Regular assessment of asset quality and updating of ratings*. We periodically assess the quality of our assets and make timely adjustments to our asset categorization in the following manner:
  - (a) *Regular assessment of asset quality*. We maintain an asset categorization procedure operated through the use of an asset characterizing model integrated into the AME System (see the section headed "Business—Information Technology" in this prospectus for more details of the AME System). Under this categorization procedure, our assets are divided into five categories, namely "pass", "special mention", "substandard", "doubtful" and "loss". The first two categories (which include "pass" and "special mention" categories) of assets are considered low risk assets, and the remaining three categories (which include "substandard", "doubtful" and "loss" categories) of assets are considered high risk assets. We apply a series of criteria in determining the classification of each of our assets, which focus on a number of factors, including (i) the customer's ability and willingness to make lease payments, (ii) the customer's payment history, (iii) the profitability of the leasing project, (iv) the collateral provided for the lease and (v) the possibility of legal enforcement in the event of delinquent lease payments. These criteria are designed to assess the likelihood of repayment by the leasing customer and the collectability of lease payments and collateral recovery. We apply collective provisions to our low risk assets and individual provisions for our high risk assets. The amount of such provisions for impairment losses is determined on the basis of our internal provisioning procedures and guidelines, which we attempt to benchmark to market practice.
  - (b) *Updating of ratings*. We closely observe a number of factors to decide whether the relevant assets should be re-categorized. These include the nature and characteristics of our individual customers, credit records, history of write-offs, payment delinquencies and the value of collateral or guarantees.

- *Loss recovery*. To mitigate potential losses, our Asset Monitoring and Management Department will appoint a team to develop and implement a loss recovery plan.

  (a) *Offsetting of lease receivables*. In order to minimize the impact of any default in lease payments, we have established a controlled procedure to allow for offset lease receivables against our payables to a defaulting customer (such as refundable deposits).

  (b) *Disposal of assets underlying our leases*. If necessary, we may dispose of the leased equipment at an appropriate price. We are generally able to obtain the latest market demand information and efficiently process such foreclosure sales for used equipment through our extensive customer network. The following table sets forth (i) the total balances of outstanding lease receivables relating to lease contracts we have foreclosed on, (ii) the total amounts recovered from the sale and disposal of these assets and (iii) the total gain or loss from the sale and disposal of such repossessed equipment or assets during the year or period indicated. The losses we suffered from disposal of equipment as of December 31, 2009 were all in the printing industry. We were not able to recover the losses under credit insurance policies, because the relevant leasing contracts were entered into prior to 2009 and were not covered by the insurance policy we purchased in 2009.

Disposals of equipment and assets underlying our lease receivables over the Track Record Period

	For the year ended December 31,			For the nine months ended September 30,
	2007	2008	2009	2010
			RMB'000	
Total recovered from sales and disposals	—	—	5,630	5,540
Total balances of outstanding lease receivables relating to foreclosed customers	—	—	6,650	5,236
Total gain or (loss)	—	—	(1,020)	304

  (c) *Credit insurance*. With regard to lease receivables in the printing industry, we may also claim compensation from credit insurers, with whom we maintain policies against credit default.

Asset Quality Analysis

As evidence of our rigorous risk management, we believe we have been able to maintain strong and consistent asset quality during the Track Record Period. The key indicators we have adopted to monitor our asset quality are set out below:

Indicator	Calculation
Non-performing Asset Ratio (**不良資產佔比**)	Non-performing assets divided by net lease receivables (不良資產佔比=不良資產餘額/應收融資租賃款淨額)
Provision Coverage Ratio (**撥備覆蓋率**)	Asset impairment provisions divided by non-performing assets (撥備覆蓋率=減值準備金額/不良資產餘額)
30-day Lease Overdue Ratio (**30天逾期率**)	Overdue net lease receivables (over 30 days) divided by net lease receivables (逾期率=30天以上逾期融資租賃款淨額/應收融資租賃款淨額)
Write-off Ratio (**核銷率**)	Total write-offs divided by non-performing assets at the beginning of reporting period (核銷率=核銷金額/不良資產期初餘額)

The following table provides asset quality information of our Group for each of the years ended December 31, 2007, 2008 and 2009 and the nine months ended September 30, 2010, respectively.

	At December 31,			Nine months ended September 30,
	2007	2008	2009	2010
	US$'000, except percentage			
Net lease receivables	878,216	1,350,541	1,971,192	2,985,821
Asset impairment provisions	11,362	17,013	25,801	34,732
Non-performing assets	14,889	25,624	23,589	21,844
Overdue net lease receivables	13,328	5,283	7,554	8,990
Write-off receivables	963	—	236	35
Non-performing asset ratio	1.70%	1.90%	1.20%	0.73%
Provision coverage ratio	76.31%	66.39%	109.38%	159.00%
30-day lease overdue ratio	1.52%	0.39%	0.38%	0.30%
Write-off ratio	12.11%	0.00%	0.92%	0.15%

Our non-performing asset ratio increased from 1.70% in 2007 to 1.90% in 2008 due to our estimate that the global financial crisis could possibly have an adverse impact on certain of our customers in the printing and shipping industries. The decline of this ratio to 1.20% in 2009 mainly resulted from the following factors: (i) in 2009, we decided to be more conservative in our management of non-performing assets and disposition of impaired leases, and as a result we terminated 12 risky projects classified as "doubtful" or "loss" in the printing, healthcare, and infrastructure industries amounting to approximately RMB38.5 million in total (including lease receivables and damages) and recovered approximately RMB37.7 million; (ii) through the global economic downturn we enhanced our understanding of the customers and industries we serve and as a result further improved our internal procedures and rules with respect to risk management and (iii) overall, our customers' businesses grew and their financial conditions generally improved in light of government policy incentives for healthcare, education and infrastructure construction and the favorable economic conditions in China in general.

Our provision coverage ratio has generally shown an improving trend from 76.31% in 2007 to 109.38% in 2009 due to our increasingly active and prudent management of our asset quality. However, the decrease to 66.39% in 2008 mainly resulted from an increase in non-performing assets, due to the adverse impact of the global economic downturn that began in the second half of 2008 when we reclassified certain performing assets as non-performing assets.

As we continued to expand the scale of our operations and also in the wake of the global financial crisis that began in the second half of 2008, we believed that we needed to take measures to better protect ourselves against systemic risk and move toward international standards and practices. Consequently, we increased our provisions for asset impairment, and as a result our provision coverage ratios rose to 109.38% and 159.00% as of December 31, 2009 and September 30, 2010, respectively. In addition, our provision coverage ratio increased as a result of improvement in the quality of our overall asset portfolio as the general economic conditions in China continued to improve.

Our lease overdue ratio (over 30 days) decreased from 1.52% in 2007 to 0.38% in 2009 due to our continuous focus on our risk management system and our attentive customer relationship management.

Our write-off ratios have decreased over the Track Record Period, from 12.11% as of December 31, 2007 to 0.15% as of September 30, 2010 as a result of our stringent risk management controls and our management of asset quality. The 2007 ratio was relatively high due to the fact that in 2007 we wrote off a majority of losses caused prior to 2007 as a result of certain one-off write-offs related to a small number of projects that had relatively large asset values. This is in line with relevant government guidelines which set out the circumstances under which the non-performing assets must be written off. Such circumstances include, among other things, bankruptcy of the debtor and the court judgment in favor of the creditor being unenforceable.

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due and may arise from balance or maturity mismatches of assets and liabilities. We have prudently managed our balance sheet and been able to generally maintain level of matching of our assets and liabilities that we believe to be appropriate. In addition, we have adopted effective strategies to manage our liquidity risk through ongoing capital budgeting, liquidity risk monitoring and timely refinancing. For details, see the section headed "Financial Information—Liquidity and Capital Resources" in this prospectus.

Our Treasury Department is mainly responsible for managing and controlling our liquidity risk and monitors the relative maturities between the Group's assets and liabilities. The Group uses a broad range of financing instruments such as bank borrowings from both domestic and foreign banks, corporate bonds and direct private financing facilities to maintain a diverse and cost effective funding base. For details of our funding capabilities, see the section headed "Business—Funding Capabilities" in this prospectus. We maintain acceptable matching of our assets and liabilities by the overall management of the size, term and pricing of our assets and liabilities. Firstly, we try to maintain the asset and liability ratio at a level of around 85% as a target of our risk management, thus the size of our assets and liabilities can be acceptably matched. Secondly, the terms of our lease contracts range from three to five years while the terms of our bank borrowings are three years in average. Although our short-term borrowings (representing loan agreements with terms of one year or less) are maintained at about 20% for the purpose of cost savings, the overall terms of our assets and liabilities are acceptably matched. Thirdly, most of our assets and liabilities are both priced based on floating interest rates so as to mitigate interest rate risk. We have promulgated Measures Governing Liquidity Management (《流動性管理辦法》) which sets out objectives, responsibilities and measures relating to liquidity risk management. For instance, the Treasury Department is responsible for determining an appropriate asset and liability ratio every year, according to the mechanism set out in the Measures Governing Liquidity Management, to be approved by our senior management, which ratio will serve as one of the targets for our liquidity management. The asset and liability ratio is determined by reference to (i) regulatory requirements; (ii) the common industry practice of top financial leasing companies in the PRC; and (iii) requirements by commercial banks providing us with loans. The Treasury Department will formulate emergency response plans if the actual asset and liability ratio is significantly higher or lower than this target. The Treasury Department will also regularly conduct stress tests on our cash flow and report material risks to our senior management where the results of the tests suggest that cash outflows may exceed inflows. We manage our liquidity risk by actively monitoring various liquidity indicators including liquidity ratios after adjustment, cash position balances, proportion of short-term interest-bearing bank and other borrowings over total interest-bearing bank and other borrowings and by optimizing the structure of our assets and liabilities, maintaining an efficient internal fund transfer mechanism, projecting cash flows and evaluating the level of our current assets.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk resulting from inadequate or failed internal controls and systems, human errors or external events. The Board of Directors and our senior management oversee the overall controls of our Company. Our Business Operation Department and the Quality Control Department are mainly responsible for managing and controlling our operational risk. In order to establish rules and procedures to identify, assess, monitor, control and mitigate operational risks, we have established operational risk management policies and procedures. These contain requirements designed to prevent losses from operational errors and maintain our reputation. The Legal Center of the Quality Control Department and the Business Operation Department are mainly responsible for formulating and coordinating the implementation of these measures and internal control policies. They also conduct regular inspections to review compliance with these measures. The industry business divisions are responsible for assessing their respective operational risks, implementing our operational risk management policies and procedures and reporting to the Operational Management Center of our Quality Control Department. Our Internal Audit Department performs periodic investigations into the quality of the internal controls systems and procedures within each industry business division and makes recommendations to the Audit Committee.

We have undertaken various measures to strengthen our operational risk management and adopted standardized operational procedures. For example, we formulated standardized leasing terms and conditions and also streamlined the leasing contract approval process. The standardized leasing terms and conditions are formulated and implemented by the Quality Control Department regularly, and any deviation from the standardized terms and conditions will need to be reviewed and approved by our Quality Control Department. Before a leasing contract becomes effective, it must be approved by multiple departments including our Quality Control, Asset Monitoring, Treasury, Finance and Business Operation Departments. In addition, we leverage our information technology systems through the consistent use of our leasing contract approval system to enhance operational efficiency. See the section headed "Business—Information Technology" in this prospectus for additional details of this system. Another example is the application of a series of efficient measures to monitor and control risks arising from the business operation stage of the leasing project process, including risks of logistical arrangements, insurance coverage, delivery of goods, equipment installation and inspection and payment procedures. Various measures are adopted in order to ensure proper management of these risks. For example, any payments shall be made strictly according to the relevant leasing contract and be subject to the prior review and a diligence check by our Business Operation Department, Treasury Department and Finance Department.

INTEREST RATE RISK MANAGEMENT

The interest rate risks that we face are relatively limited because both our assets and liabilities are based on floating interest rates. The limited interest rate risk we incur primarily arises from the difference in the duration of our assets and total of our liabilities. Our Treasury Department and Finance Department are mainly responsible for managing and controlling our interest rate risk. We manage our interest rate risk exposure by adjusting the structure of our assets and liabilities based on an assessment of potential changes in interest rates using gap analysis, which provides a measure of the repricing characteristics of the Company's assets and liabilities. We have adopted certain measures to deal with interest rate risk, including (i) further strengthening research capabilities to determine likely interest rate fluctuations and trends by formulating regular tracking and reporting systems and (ii) adjusting interest rate pricing policies for lease contracts to minimize interest rate gaps and inconsistencies between assets and liabilities. We have also formulated and implemented Measures Governing Interest Rate Risk Management (《利率風險管理辦法》) to further regulate interest rate risk management based on our past experience. These measures introduced a mechanism to assess the impact of potential interest changes using gap analysis. The Treasury Department is responsible for formulating response plans and reporting material risks and response plans to our senior management for approval.

EXCHANGE RATE RISK MANAGEMENT

Our primary business operations are exposed to limited foreign exchange rate risk because (i) our domestic operations are primarily funded through domestic funding in local currency, and (ii) our international operations within our ship financial leasing business are conducted and funded in U.S. dollars. Our exposure to the risk of changes in foreign exchange is primarily due to (i) a relatively small portion of our debt obligations being in U.S. dollars and being utilized to fund our domestic operations, and (ii) conversion of the RMB from our PRC operations to our reporting currency in U.S. dollars. Our Treasury Department and Finance Department are responsible for managing and controlling our exchange rate risk. We have formulated and implemented a policy titled "Measures Governing Exchange Rate Risk Management" (《滙率風險管理辦法》) to manage our exchange rate risk. According to these measures, we manage our currency exposures primarily by establishing tracking and reporting systems which record the latest exchange rate fluctuation information to enable us to effectively manage exchange rate risk in the long run. Moreover, if foreign debt is going to be utilized for domestic operations, the Treasury Department shall formulate plans to mitigate the foreign exchange risk and report material risks and response plans to senior management for approval.